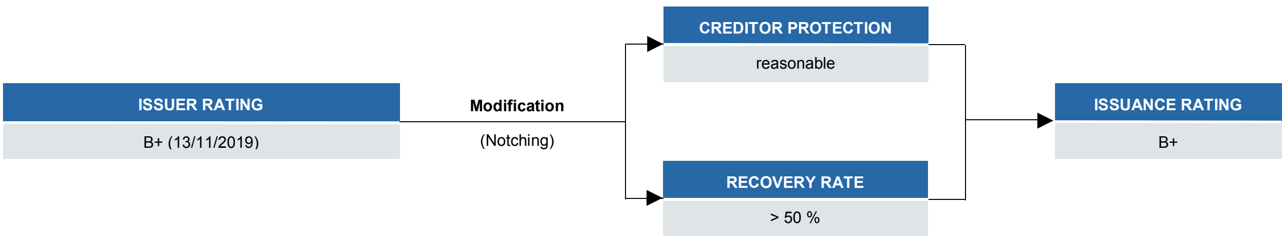
Issuance Rating

Trans-Sped Logisztikai Szolgáltató Központ Kft. Senior unsecured bonds 2020/30 (ISIN HU0000359500)		03 March 2020	B+
		Issuance rating	
		Outlook	stable
Industry	Transportation and Logistics	Issuance volume	HUF 5bn
		Coupon (% p.a.)	2.5% p.a.



ISSUER RATING — B+

- Increased business risks due to operations in highly cyclical, highly competitive and fragmented markets
- Slightly increased financial risks due to rather weak earnings, low capital returns and increasing leverage
- No modification for operational risks or external influence

CREDITOR PROTECTION — reasonable

- Final bond terms and conditions (03/03/2020)
- Partially amortising bond structure
- Reasonable, market standard terms esp. with view to termination rights, covenants and negative clauses

RANKING — senior unsecured

- Unsecured bonds rank effectively below higher ranking secured bank debt
- Issue proceeds to be predominantly utilized for warehouse expansion plans and recapitalisation

RECOVERY — > 50 %

- Hypothetical default scenario based on assumed liquidation of assets
- Expected recovery rate: > 50%

KEY DATA

Listing	Yes	Secondary market listing within 180 days after initial private offering
Issuance volume	up to HUF 5bn	Book building period until 12/03/2020 (min. issue volume HUF 1bn)
Denomination	HUF 50.000.000	Max. 100 bonds = HUF 5bn (max. issuance volume)
Coupon	2.5% p.a. fix	Annual coupon payments beginning on 16/03/2021 (retrospective)
Amortisation	30% from 16/03/2026	70% balloon refinancing at maturity
Term to maturity	10 years	Term begins on 16/03/2020, maturity date is 16/03/2030
Collateral	none	Senior unsecured bonds

Rating rationale

Euler Hermes Rating has assigned a B+ issuance rating to Trans-Sped's 2020/30 senior unsecured bond offering with a total issuance volume of up to HUF 5bn. The rating was derived from Trans-Sped's current issuer credit rating (B+), the bond's structural ranking, reasonable creditor rights and recovery expectations of more than 50% in a hypothetical bond default scenario.

Unsecured bonds rank effectively below higher ranking secured debt

Trans-Sped's HUF 5bn senior unsecured bond offering with a fixed coupon rate of 2.5% p.a. (governed by Hungarian law), is structured as a partially amortising balloon note with a term of 10 years. Overall, we assess the bond issue to be subject to a senior ranking, as the net proceeds from the offering rank pari passu with any other non-subordinated, unsecured financial liabilities. However, the bond proceeds do not necessarily replace existing debt, and hence, a notable proportion of effectively higher ranking secured bank debt ("OTP", "Erste", "K&H") remains post issuance (pro-forma 31/12/19 c. HUF 4.8bn). This situation may put future bondholders at risk of relatively low recovery in a default scenario.

Reasonable creditor protection rights

Trans-Sped's current asset base remains pledged as collateral to the existing providers of secured bank debt. For holders of unsecured debt it is important to mitigate the risk of becoming significantly disadvantaged in the event of additional debt issues, when permitted. We generally expect higher risks for lower rated entities, as these are often forced to raise new debt against any unencumbered assets should their credit quality deteriorate further. To mitigate these risks, a standard set of reasonable creditor protection clauses has been included into the final bond terms. In our view, the applied clauses such as pari passu, negative pledge, cross default, rating deterioration, change of control or dividend restrictions keep the issuers capital structure under control while ensuring equal rights of payment and equal seniority with any new debt issues. We also acknowledge the binding commitment for partial amortization (30%) from 2026.

Expected recovery > 50% based on hypothetical default scenario

Our recovery expectation on the senior unsecured bond offering follows a hypothetical default scenario based on an assumed liquidation of assets. Trans-Sped's overall credit-worthiness is currently driven by a slightly increased default risk mainly as a result of its operations in the transportation and logistics sector, which we assess as highly cyclical and highly competitive with low barriers to entry, low profit margins and a fragmented market environment. This set-up is not supportive in sustaining high long-term debt levels, usually seen with asset-intense transport and logistic companies (cp. B+ issuer rating report). In a hypothetical default scenario, however, we assume a further deterioration of the issuer's overall creditworthiness as a cause of prolonged market stress leading up to depressed long-term profit prospects, overcapacities (e.g. warehouses) and stressed net asset values (e.g. shrinking warehouse rent multiples). We also assume that ranking and size of debt claims could change prior to default, and that the issuer could be forced to pledge more assets as its credit quality deteriorates. Consequently, loss given default usually rises disproportionately the higher the probability of default is. This is especially true for unsecured debt. Nevertheless, we still expect recovery rates of at least 50% for the holders of the unsecured senior bonds, as in our opinion the current net assets of Trans-Sped already contain a notable amount of hidden reserves (cp. reported HUF 3.2bn revaluation reserve). Furthermore, Trans-Sped keeps expanding into new and very modern facilities which we expect to maintain higher values in distressed situations while being exempt from any unfavorable pledge agreements (pari passu / negative pledge). Our assessment leads to the equalization of the bond issuance rating with the current issuer rating of Trans-Sped (B+).

Rating History

	26 November 2019	03 March 2020
Issuer rating	B+	B+
Issuance rating	preB+	B+
Outlook	stable	stable

Upgrade / Downgrade Factors

Factors that could lead to an Upgrade

- Upgrade of Trans-Sped's issuer credit rating
- Lasting improvement of the bond's expected recovery rate

Factors that could lead to a Downgrade

- Downgrade of Trans-Sped's issuer credit rating
- Lasting deterioration of the bond's expected recovery rate

Issuance

HUF 5bn issue to fund warehouse expansion plans

Trans-Sped's senior unsecured bond offering with a fixed coupon rate of 2.5% p.a. (governed by Hungarian law), is structured as a partially amortising balloon note with a term of 10 years. The balloon payment (70%) is due at maturity (16/03/2030). The bonds are issued below par at a discount (92.2340%) and the net proceeds from the offering will be utilised for Trans-Sped's future asset expansion plans, while unutilised amounts shall optimise the issuer's capital structure (e.g. debt replacements). More precisely the company intends to build new warehouse capacities along with the expansion plans of its existing customers, e.g. from the automotive or chemical industry. As of 31/12/2019 the company's pro-forma consolidated capital structure contained secured long- and short-term bank loans ("OTP", "Erste", "K&H") and financial leases ("DLL", "Ober") in a total amount of HUF 7.3bn (thereof capitalized leases: HUF 2.5bn). Depending on the total proceeds from the issuance and their utilization, we expect total net financial liabilities of between HUF 8bn and HUF 12bn at issuer level by the end of year 2020.

Private placement process

Trans-Sped applied for MNB's "Bond Funding for Growth Scheme" (BGS) and initiated a private placement process under the advice of OTP Bank (issuing agent) in Q1/2020. Besides the Central Bank of Hungary (MNB), five additional institutional investors ("OTP", "K&H", "Erste", "CIB", "MKB") were asked to place their purchase orders until 12th March 2020 (closing date). Allocation of the bonds and settlement with the paying agent will take place until 16th March 2020 (issue date). Within 180 days, a secondary market listing of the notes at the Budapest stock exchange is obligatory (final bond terms).

Final issuance rating assigned

The issuance rating is linked to Trans-Sped's current issuer credit rating (13/11/2019; B+), which already takes account of the newly formed group structure based on pro-forma consolidated figures as of 31/12/2019. Furthermore, this final issuance rating is assigned based on the final bond documentation as of 03/03/2020, confirming our preliminary assessment on the bond's structural ranking, creditor rights and recovery expectations.

Appendix 1: Execution

Notice

This report represents a supplement to the issuer rating report from 13 November 2019. The issuance rating is derived from the current issuer rating. The full rationale for the issuer rating notation can be found in the issuer rating report.

Analysts

- Matthias Peetz, Senior Analyst / Project Lead
- Ildikó Rendes, Senior Analyst
- István Braun, Senior Analyst

Rating committee

- Dörte Mählmann, Director
- Holger Ludewig, Director

Principal sources of information

- Final bond documentation (as of 03/03/2020)
- Business plan provided by the issuer
- Management interview

Rating methodology

- Euler Hermes Rating GmbH Issue Rating Methodology of December 2014 (formally amended on 14 November 2017) (https://www.ehrg.de/seiten/Methodology_Issue%20Rating_20171114.pdf)

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Appendix 2: Rating categories

Category	Explanation
AAA	In the opinion of EHR, AAA rated obligations demonstrate an excellent credit quality and the lowest default risk.
AA	In the opinion of EHR, AA rated obligations demonstrate a very high credit quality with a very low default risk.
A	In the opinion of EHR, A rated obligations demonstrate a high credit quality with a low default risk.
BBB	In the opinion of EHR, BBB rated obligations demonstrate a medium credit quality with a moderate default risk.
BB	In the opinion of EHR, BB rated obligations demonstrate a medium-low credit quality with a slightly increased default risk.
B	In the opinion of EHR, B rated obligations demonstrate a low credit quality with an increased default risk.
CCC	In the opinion of EHR, CCC rated obligations demonstrate a very low credit quality with a high default risk.
CC	In the opinion of EHR, CC rated obligations demonstrate a very low credit quality, an event of default is very likely.
C	In the opinion of EHR, C rated obligations demonstrate a very low credit quality, an event of default is imminent.
D	D rated obligations have defaulted, as defined by the rating agency.
PLUS (+) **MINUS (–)**	Rating categories from AA to CCC are modified by a PLUS (+) or MINUS (-), where required, in order to show their relative position within the rating category.

Disclaimer

Magyar Nemzeti Bank (client) engaged Euler Hermes Rating GmbH to conduct a rating of the upcoming bond issuance (rated obligation) of Trans-Sped Logisztikai Szolgáltató Központ Kft. (issuer) on 17 September 2019. Interviews with the issuer were conducted on 4 November 2019.

The Rating Committee of Euler Hermes Rating GmbH reviewed the rating process, issued the rating notation and approved the rating report in its current form on 03 March 2020. This rating report was given to the client on 03 March 2020, thereby concluding the rating process.

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The issuer is solely and exclusively liable for any errors and omissions in the documents and information openly and willingly provided to us in response to our requests for information. The issuer has reviewed the rating report and certified that all the information considered in the rating report is accurate and complete in all significant respects, no significant aspects have been concealed and any forward-looking statements are based on plausible, verifiable and current data and were prepared by the issuer exercising reasonable and commercial care. The issuer's representatives have issued a written certification of completeness to Euler Hermes Rating GmbH. However, the issuer cannot be held liable if actual results differ from the forward-looking statements presented in this document, particularly the projections. Forward-looking statements and projections may be adversely affected by unforeseeable events and changes in the economic environment. Euler Hermes Rating GmbH assumes no liability for the accuracy of the information it considers when issuing a rating and extends no guarantee whatsoever that the information is explicitly or implicitly correct, timely, complete, suitable for the market or fit for any particular purpose.

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Euler Hermes Rating GmbH

Hamburg, 03 March 2020

